

THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

P. O. Box GP 4268

Accra, Ghana

Tel.: 0288700101; 0288700111;

0288700222; 0288700333; 0288700444;

0544336701; 0277801422

Digital Address: GA-416-9898

E-mail: info@icagh.com; icaghana@gmail.com

Website: www.icagh.com

ICAG/CEO/TRD/ED/2018/03

The Technical Director
International Auditing and Assurance Standard Board (IAASB)
New York

29th October, 2018

Dear Sir,

Comments on Exposure Draft ISA 315 (Revised): Identifying and Assessing the Risk of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs.

We are grateful to the IAASB for the opportunity given us to comment on the Exposure draft ISA 315 (Revised): Identifying and Assessing the Risk of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs.

Below are our responses to the questions raised in the Exposure Draft.

Question 1:

Has ED-315 been appropriately restructured, clarified and modernized in order to promote a more consistent and robust process for the identification and assessment of the risks of material misstatement. In particular:

- a. Do the proposed changes help with the understandability of the risk identification and assessment process? Are the flowcharts helpful in understanding the flow of the standard (i.e. how the requirements interact and how they are iterative in nature?)

Response

ISA is voluminous standard with quite a number of different concepts contained within. It is also one of the most important standards as it addresses the heart of the performance of an audit. The proposed changes are numerous all in an attempt to improve the conduct of an audit as well as the understandability of this standard. One of the most important of these is the flowcharts. It is important for users of this standard to not be overwhelmed by the amount of detail that is contained within (not see the forest from the trees) yet still be able to appreciate the detailed and very helpful changes that have been incorporated in this standard.

With the flowcharts one is able to see the big picture and where one is at each stage of the process. This flowchart also has references to key paragraphs in the standard and so it serves as a quick reference point to hone in on particular technical details within the process. The flow charts help auditors to understand how the standard will have to be implemented. The proposed changes help auditors to understand the client's business process model deeply and also identify the risk inherent in the application of the client's applicable financial reporting framework.

b. Will the revisions promote a more robust process for the identification and assessment of the risks of material misstatement and do they appropriately address the public interest issues outlined in paragraphs 6 – 28?

Response

Yes, the revisions will promote a more robust process for the identification and assessment of the risk of material misstatement. This is because the revisions are made with public interest in the forefront and thus we believe it will drive the performance of a quality audit. Quality audit in the form of improved identification and assessment of risk of material misstatements. With the introduction of the flowchart which will provide a visual representation of how the entire standard is to be applied, we believe the proposed changes will promote a more robust approach in assessing the risk identification.

Some of the public interest issues addressed through the changes include;

- Complexity and iterative nature of the standard – introductory paragraphs summarizing and providing overall context/structure of standard as well as the 3 flowcharts providing visual representation of entire standard supporting this;
- Scalability issues are also addressed as the application material has consideration of smaller or less complex entities contrasted with larger or more complex entities;
- Data analytics – in response to increasing use of automated tools & techniques when performing risk assessment a DAWG was set up and they determined that the focus should be on gathering sufficient audit evidence and not on prescribing how the evidence is obtained. Nevertheless the standard touches on how using data analytics can enhance the understanding of risk factors;
- IT – recent developments indicate that it is increasingly important to understand the IT environment with focus on financial reporting. So significant changes have been made to enhance the understanding of the entity's use of IT in business and system of internal controls have been made to the standard. This is introduced in a principles based manner;
- Independence and professional skepticism are touched on in various paragraphs throughout the standard. Appendix 1 summarizes all the areas that are touched on;
- Fraud – the introduction of inherent risk factors in identifying and assessing the susceptibility of assertions to misstatement is in the standard. A link to the consideration of the susceptibility of misstatement due to fraud has been made in the standard.

Appendix 1 provides a summary of all the particular paragraphs/references to where the public interest items have been addressed.

(a) Are the new introductory paragraphs helpful?

Yes they are. Paragraphs 1 – 14 provide an overview of what is contained in this standard. The new introductory paragraphs are very helpful as it not only highlights the risks of material misstatements to be identified and assessed during audits planning but also provides guides in the assessment and identification of the risks of material misstatements.

Question 2:

Are the requirements and application material of ED-315 sufficiently scalable, including the ability to apply ED-315 to the audits of entities with a wide range of sizes, complexities and circumstances?

Response

Yes, the requirements and application of ED-315 are sufficiently scalable considering the fact that ED-315 requires auditors during engagements to understand and appreciate the entity, its environments and its complexities and also the fact that IAASB innovatively has embedded scalability in Exposure Draft 315 to look at clients of all sizes and different operations. While paragraph 13 introduces the concept of scalability, the application materials actually provide the detailed guidance on how to scale the individual concepts/steps that are addressed in the standard. Appendix 1 provides an extensive list of references to scalability.

Question 3:

Do respondents agree with the approach taken to enhancing ED-315 in relation to automated tools and techniques, including data analytics, through the use of examples to illustrate how these are used in an audit (see Appendix 1 for references to the relevant paragraphs in ED-315)? Are there other areas within ED-315 where further guidance is needed in relation to automated tools and techniques, and what is the nature of the necessary guidance?

Response

Yes, we agree with the approach taken to enhancing ED-315 in relation to the automated tools and techniques. We agree with the fact that the approach considers the use of automated tools in performing risk assessment procedures. The use of automated tools and techniques to understand the entity and its environment and finally the use of automated tools to assess the nature and extent of controls over journal entries. It is important for the auditor to consider an entity's use of Information Technology considering the nature of complexities and maturity of the client's technology through the use of IT audit tools. The suggestions are excellent in the application of data analytic techniques to the risk assessment process, such as identifying more areas of possible misstatement, understanding the entity and also understanding the controls or lack of controls that exist in interfacing with the accounting information system especially in identifying whether all SCOTABD have been identified.

We are not aware of any other areas to apply automated tools/techniques.

Question 4:

Do the proposals sufficiently support the appropriate exercise of professional skepticism throughout the risk identification and assessment process? Do you support the proposed change for the auditor to obtain ‘sufficient appropriate audit evidence’ through the performance of risk assessment procedures to provide the basis of the identification and assessment of the risks of material misstatement, and do you believe this clarification will further encourage professional skepticism?

Response

Yes the proposals sufficiently support the exercise of professional skepticism throughout the risk identification and assessment process. Looking at the fact that it even introduces automated tools and techniques to assist the process such as visualisation techniques which helps to identify more specific areas of possible misstatements. It also requires explicitly from the audit team to exercise professional skepticism when performing risk assessment procedures. The benefits of the engagement team discussion and therefore sharing of experience/views on the entity, obtaining a thorough understanding of the entity/environment and applicable financial reporting framework, communications with the internal audit function and the identification and discussing of inconsistent or contradictory information with the team all go to enhance this skepticism.

Question 5:

Do the proposals made relating to the auditor’s understanding of the entity’s system of internal control assist with understanding the nature and extent of work effort required and the relationship of the work effort to the identification and assessment of the risks or material misstatement? Specifically;

- a. Have the requirements related to the auditors understanding of each component of the entity’s system of internal control been appropriately enhanced and clarified? Is it clear why the understanding is obtained and how this informs the risk identification and assessment process?**

Response

Yes, we believe that it is clear. The requirements with regards to the auditor’s understanding of each component of the entity’s internal control system is appropriately enhanced and clarified. This is evident in the fact that the IAASB has set out within each component which matter need to be understood. The IAASB has made it very clear why the understanding needs to be obtained and how this informs the risk identification and assessment process. The identification of 3 components as indirect and 2 components as direct serve to highlight easy identification of these components and how they relate to the system of internal controls. The guidance, actually breaking down what each of these components contains is also very useful. Finally, the flowcharts (especially the entity’s system of internal control flowchart) are quite useful in situating how each of these components is to be understood and how they relate to one another in arriving at the identification of the risks of material misstatement.

- b. **Have the requirements related to the auditor's identification of controls relevant to the audit been appropriately enhanced and clarified? Is it clear how controls relevant to the audit are identified, particularly for audits of smaller and less complex entities?**
Yes, the requirements related to the auditor's identification of controls relevant to the audit are appropriately enhanced and clarified and it is clear how controls relevant to the audit are identified. The IAASB in paragraph 39 requires the identification of controls that address risks for which substantive procedures cannot provide sufficient appropriate audit evidence. This is a principles based approach and so this guidance can be applied to all types (simple or complex) of entities. There does not seem to be a discussion on scalability for relevant controls and so the clarity appears to be the same for larger/more complex and smaller/less complex entities.
- c. (i) **Do you support the introduction of the new IT-related concepts and definitions?**
(ii) **Are the enhanced requirements and application materials related to the auditor's understanding of the IT environment, the identification of the risks arising from IT and the identification of general IT controls sufficient to support the auditor's consideration of the effects of the entity's use of IT on the identification and assessment of the risks of material misstatement?**

Response

- (i) We support the introduction of the new IT-related concepts and definition. We can infer from the fact that the IAASB introduced the new IT-related concepts and definition to enhance clarity in the application of controls during audit. These enhanced requirements and application materials are very helpful. The separation of information systems and communications from other components of the entity's system of internal control is big picture shift that will increase focus and understanding in this area. The flowchart for "*understanding the IT environment*" further enhances our understanding by clearly illustrating the relationship between the IT environment, applications, and IT infrastructure (including database, operating systems and networks). The guidance on general IT controls and their impact on risk assessment is also very insightful and will make us consider the impact that information processing has on risks and reported numbers that the auditor might not have otherwise considered.
- (ii) No, we do not agree with this view point. We are of the view that the identification of the risks arising from IT and the identification of general IT controls is not sufficient to support the auditor's consideration of the effects of the entity's use of IT as the auditor is also required to understand the entity's use of IT in its business and system of internal control. This understanding will form the basis for the auditor's identification of risks of material misstatement arising from the use of IT.

Question 6:

Will the proposed enhanced framework for the identification and assessment of the risks of material misstatement result in a more robust risk assessment? Specifically;

- (a) Do you support separate assessments of inherent and controls risk at the assertion level, and are the revised requirements and guidance appropriate to support the separate assessments?**

Response

Yes, we support separate assessments of inherent and control risk at the assertion level. We believe that in order to be able to identify the risk of material misstatement, we believe a separate assessment of the inherent and control risk should be done. In order to plan our approach we need to understand the inherent risks that exist at the assertion level in order for us to assess whether the existing controls can sufficiently detect/prevent significant misstatements. The requirements/guidance including inherent risk factors, spectrum of inherent risk, likelihood vs magnitude all provide sufficient guidance in assessing inherent risk separately.

- (b) Do you support the introduction of the concepts and definitions of ‘inherent risk factors’ to help identify risks of material misstatement and assess inherent risk? Is there sufficient guidance to explain how these risk factors are used in the auditor’s risk assessment process?**

Response

Yes, we do support the introduction of the concepts and definitions of inherent risk factors. This is to help identify and highlight the intended risks of material misstatement during audit engagement and also there is sufficient guidance to explain how these risks factors are to be used in the auditor’s risk assessment process. They provide more focused guidance on understanding inherent risk factors. The guidance taken into consideration includes the spectrum of inherent risk and really supports the risk assessment understanding process.

- (c) In your view, will the introduction of the ‘spectrum of inherent risk’ (and the related concepts of assessing the likelihood of occurrence, and magnitude of a possible misstatement) assist in achieving greater consistency in the identification and assessment of the risks of material misstatement, including significant risks?**

Response

Yes, the introduction of the spectrum of inherent risk will assist the auditor in achieving greater consistency in the identification and assessment of the risks of material misstatement. The risk to which inherent risk varies is referred to as spectrum of inherent

risk. The introduction of the spectrum will assist the audit in achieving greater consistency in the identification and assessment of the risks of material misstatement. There is now a common framework that practitioners will use to assess inherent risk. This can only help ensure consistency in practice.

- (d) Do you support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions? Is there sufficient guidance to explain how they are determined (i.e. an assertion is relevant when there is reasonable possibility of occurrence of a misstatement that is material with respect to that assertion), and how they assist the auditor in identifying where risks of material misstatement exist?**

Response

Yes, we support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures and their related assertions. This is because the new concepts and related definitions help the auditor to address the risks of material misstatement associated with significant classes of transactions, account balances and disclosures and their related assertions.

There is sufficient guidance to explain how they are determined. These are best explained in paragraph 6 of ISA 330. There is now focus on reasonable possibility of misstatement of an assertion to the exclusion of remote possibility of misstatement. The guidance is principles based allowing the auditor to interpret for their particular situation, but this is also circular. Relevant assertions are those assertions that can likely (reasonably) result in significant misstatement for a SCOTABD while a SCOTABD exists when there is a reasonable likelihood of significant misstatement for a particular assertion.

- (e) Do you support the revised definition and related material on the determination of the Explanatory Memorandum relating to how significant risks are determined on the spectrum of inherent risk?**

Response

We support the revised definition and related material on the determination of significant risk but it is not conclusive. Though the definition acknowledged a significant risk could result from the degree of likelihood of misstatement or magnitude of misstatement, it did not conclude on the matter but laid a caveat for consulting. The removal of the focus from the response but rather to where the risk is situated on the spectrum of inherent risk seems to be more intuitively understandable and consistent. In addition, the clarification of **either** a high likelihood or high magnitude (impact) has provided further guidance on the understanding of significant risk.

Question 7:

Do you support the additional guidance in relation to the auditor's assessment of risks of material misstatement at the financial statement level, including the determination about how, and the degree to which, such risks may affect the assessment or risks at the assertion level?

Response

Yes we do. The additional guidance was presented in a way that is easy to understand. From the "Entity's system of internal controls", the concept of 'indirect controls' – (control environment, entity's risk assessment process and entity's monitoring of internal control) is that a deficiency in these controls will cause a risk of material misstatement at the financial statement level and the related pervasive effect of this on the risk of material misstatement of numerous assertions in the financial statement was most enlightening.

Question 8:

What are your views about the proposed stand-back requirement in paragraph 52 of ED-315 and the revisions made to paragraph 18 of ISA 330 and its supporting application material? Should either or both requirements be maintained? Why or why not?

Response

Paragraph 46 of ED 315 requires us to identify only those COT's AB and D's that are significant and then continue to further perform risk assessments on (risk of misstatement on COT's AB and D's considered significant related to assertions). The stand back provisions of para 52 of the ED asks that we stand back and look at the COT's AB and D's that are either quantitatively or qualitatively material and that have not been classified as significant. We are then to re-assess our assessed non-significant COT's, AB and D's and evaluate that there are no relevant assertions. Relevant assertions are the concept of reasonable possibility of misstatement with respect to an assertion that is material. If there are no relevant assertions then we respond in accordance with ISA 330.

This is contradictory to;

The revision to paragraph 18 of 330 which essentially clarifies that we are to perform substantive procedures on COT's AB's and D's that are either "quantitatively or qualitatively material". The two cannot stand and so a decision must be made to make these standards to be consistent with each other.

Question 9:

With respect to the proposed conforming and consequential amendments to:

- a) ISA 200 and ISA 240, are these appropriate to reflect the corresponding changes made in ISA 315 (Revised)?**

Response

Yes they are. ISA 200 deals with the objectives of an independent auditor and the conduct of an audit in accordance with ISA's. The only change is the conduct of the audit and so some minimal changes (separate assessment of inherent risks from control risks; new concepts of inherent risk factors, spectrum of inherent risk, relevant assertions and SCOTABD) as noted are all that is needed for ISA 200. For ISA 240, the main change has been to explain the relationship between fraud risk factors and inherent risk factors. Controls over fraud risk factors are "Controls" relevant to the audit. Also a slight clarification of the override of controls by way of journal entries.

- b) ISA 330, are the changes appropriate in light of the enhancement that have been made in ISA 315 (Revised), in particular as a consequence of the introduction of the concept of general IT controls relevant to the audit?**

Response

Yes. ISA 330 which deals with the response to the assessed risks needs to reflect our enhanced understanding of these risks particularly in light of our improved understanding of the effect of general IT controls over the audit.

- c) The other ISAs as presented in Appendix 2, are these appropriate and complete?**

Response

Yes. ISA 330 which deals with the response to the assessed risks needs to reflect these changes as does ISA 210, 220, 230, 250, 265, 300, 402, 500, 501, 505, 550, 570, 600, 610, 701, 720, 800. In all these ISA's there are definitions and terms which have to be updated to reflect the ED 315 as it reflects in all these standards.

- d) ISA 540 (Revised) and related conforming amendments (as presented in the Supplement to this exposure draft), are these appropriate and complete?**

Response

Yes. We believe ISA 540(Revised) and related conforming amendments are appropriate and complete.

Question 10:

Do you support the proposed revisions to paragraph 18 of ISA 330 to apply to classes of transactions, account balances or disclosures that are 'quantitatively or qualitatively material' to align with the scope of the proposed stand-back in ED-315?

Response

We agree with the revision to paragraph 18 of ISA 330 to include both ‘qualitatively and quantitatively’ to the standard. We also agree with the intent to align paragraph 18 of ISA 330 to the proposed stand-back in ED-315, since ISA 330 is a response to the risk of misstatement identified in ISA 315. But, they appear to have different outcomes. If the stand-back procedure performed in ISA 315 reveals that there is no revision to the conclusion not to categorize some material COT’s AB and D’s as significant then some material COT’s AB and D’s are not to be tested. However, paragraph 18 of ISA 330 requires we test all material COT’s AB and D’s whether they are significant or not. We believe the guidance in both standards needs to be consistent.

Question 11:

In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:

- (a) Translations – recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the ED-315.**

Response

No issues noted.

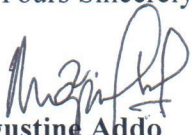
- (b) Effective Date – Recognizing that ED-315 is a substantive revisions, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.**


Response

We believe that this is sufficient time for the application. This is probably the most important and difficult standard as it represents the core of an audit and so sufficient time is necessary for all to digest and apply if one expects consistent success in application.

We hope the IAASB finds these comments helpful in further developing its consultations on this Exposure Draft 315 (Revised). In turn, we are committed to helping the IAASB in whatever way possible to build upon the results of this Exposure Draft. We look forward to strengthening the dialogue between us. Please do not hesitate to contact us should you wish to discuss any matters raised in this submission.

Yours Sincerely,


Augustine Addo
Director, Member Services


Osei Kwaku Adjaye-Gyamfi
Director, Technical and Research